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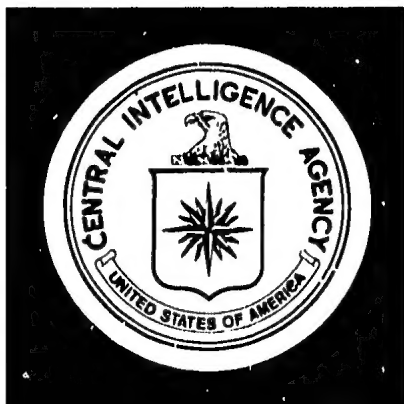
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Intelligence Memorandum

East Asia's Textile Exports: A Year Under New Restraints

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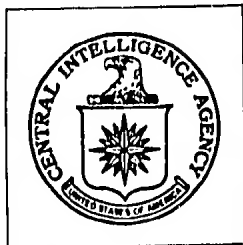
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June 1973



East Asia's Textile Exports: A Year Under New Restraints

As a result of textile restraints adopted in late 1971 by Japan, Taiwan, Hong Kong, and South Korea, the volume of East Asian textile shipments to the US market in 1972 fell by 10%. In dollar terms, however, the overall value of US textile imports from East Asia jumped 15% to US \$1.6 billion because of product upgrading and price increases.

The restraints deflected large amounts of East Asian textiles to countries other than the United States. Overall East Asian textile exports rose by 14% (according to East Asian statistics), reaching \$5.6 billion. About one-third of the increase went to the European Community (EC) and the United Kingdom. Until the new restraints were imposed, only Hong Kong paid much attention to those markets. Because of their success in diversifying export markets and getting higher prices for their goods, the East Asian textile industries continued to prosper during 1972, although the Japanese industry experienced a slight drop in output.

East Asia's export drive faces serious challenges in the future. Protectionist sentiment against the East Asians already is mounting, especially in the EC, and a proliferation of restraints will probably develop in the absence of a broad international agreement covering textile trade. Differences between the EC and East Asia will make a comprehensive agreement difficult to achieve. Under these circumstances the exporting countries may press for easier access to the US market in return for accepting a new international agreement. In addition to new restraints, Japan will have difficulty boosting sales because of its weakened international competitive position.

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DISCUSSION

The Prelude to Broadened Export Controls

1. Since the mid-1960s, East Asia has become increasingly important in world textile trade. Japan and Hong Kong had long been major exporters, and, with the emergence of large industries in Taiwan and South Korea, the region became by far the leading source of inexpensive textile products for the world market.¹ Between 1965 and 1971, East Asian textile exports more than doubled in value, reaching nearly \$5 billion annually -- about one-third of the world total. At the same time, Japan's share of East Asian textile exports fell from 73% to 54% because the other countries' exports grew especially rapidly. The combined value of Taiwanese and South Korean textile sales abroad, for example, rose an average of 45% annually during 1966-71.

2. Crucial to this outstanding performance was East Asia's easy access to the US market. US textile imports from the region nearly tripled between 1965 and 1971, when they amounted to \$1.4 billion -- three-fifths of the US total. Growing purchases from East Asia were the key factor boosting the US trade deficit in textiles from about \$700 million in 1965 to \$2.0 billion in 1971. The East Asians captured a substantial share of the US market in numerous product lines, especially man-made fiber textiles, which accounted for three-fourths of the volume of US purchases from East Asia by 1971.

Nature of the New Restraints

3. Because of inroads made in the US market, the East Asians came under increasing pressure from Washington to restrain textile shipments. For a time the countries strongly resisted export controls on the grounds that they would damage the industry, cause major losses in foreign exchange earnings, and slow economic growth. Near the end of 1971, however, agreements finally were reached that placed tight volume limits on shipments of man-made fiber and woolen textiles to the US market. Limits on exports of cotton textiles to the United States had been in effect for many years but did not rule out substantial short-term gains.

4. Japan, the largest supplier, accepted the stiffest restrictions. Tokyo agreed to limit the annual growth in export volume to 5% for

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man-made fiber textiles and 1% for woollens during the three-year period ending in September 1974. Agreements with the other countries limited the annual growth in export volume to 7.5% for man-made fiber products and 1% for woollens during the five years ending in September 1976. The restraint programs also included detailed item-by-item restrictions within the overall volume limits. For all four countries the base year used in calculating future export limits was the 12 months ending in March 1971. Export volume in this period was considerably smaller than volume in calendar year 1971, which reflected soaring shipments made in anticipation of the restraints. Japanese exports during the base year, for example, were only two-thirds of the level for calendar year 1971.

Export Developments in 1972

5. East Asia's global textile exports continued to expand rapidly in 1972, but the restraint program and other factors deflected most of the growth to countries other than the United States, according to East Asian statistics. Increases in volume and prices raised the four countries' exports by \$708 million, to \$5.6 billion. As the following tabulation shows, the two exporters with the smaller value of textile exports achieved the largest percentage gains:

	Million US \$		Percent Increase
	1971	1972	
Total	4,888	5,596	14
Japan	2,653	2,799	6
Hong Kong	1,132	1,265	12
Taiwan	624	860	38
South Korea	479	672	40

Sales to the United States

6. US data indicate that the restraint programs were successful in curbing the growth of export volume to the United States in 1972, even though limits were not observed strictly during the programs' first 12 months. Shipments declined by 10%, to 3.2 billion square yard equivalents, because restraint levels were tied to the relatively low volume of the base period. Shipments of man-made fiber products fell particularly sharply, while cottons increased markedly (see the following table and the Appendix). Although US textile imports from other countries rose, the fall in East Asian shipments held the overall gain in US import volume to 7%, compared with 36% in 1971.

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CONFIDENTIAL**US Textile Imports from East Asia, 1972¹**

	Japan	Hong Kong	Taiwan	South Korea	Total East Asia
Million Square Yard Equivalents					
Total	1,306	768	619	479	3,172
Man-made products	980	254	518	416	2,168
Wool products	11	26	8	12	57
Cotton products	314	488	93	51	946
Percent Change Over 1971					
Total	-24	11	-7	5	-10
Man-made products	-30	3	-12	2	-18
Wool products	-56	4	167	71	-5
Cotton products	10	17	26	24	16

1. Because of rounding, components may not add to the totals shown.

7. The volume of US textile imports from Japan dropped by 24% last year. Purchases of man-made fibers and yarns were off more than one-half because of the restraint program and the yen revaluation in December 1971, which weakened Japan's ability to compete with other suppliers. Tight item-by-item restrictions caused shipments of finished man-made fiber textile goods, including apparel, to stagnate. Japan was unable, for example, to use its quotas for non-knit skirts and slacks owing to US style changes, and itemized restrictions prevented much shift into products of growing popularity. In contrast to man-mades, cotton textile imports from Japan increased 10% during 1972 in response to growing US demand for such products as denims. Even so, Japan filled only half of its cotton textile quota in the US market.

8. US purchases from the other East Asian countries increased only moderately in aggregate volume. Under the pressure of restraints, shipments of man-made fiber products from Taiwan declined, and those from Hong Kong and South Korea rose little. Hong Kong, like Japan, made important

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gains in cotton textile sales, somewhat exceeding its US cotton textile quota in the process.

9. Of the four countries, only Taiwan held its overall shipments of man-made fiber products during the period October 1971 - September 1972 within the quota, as the following tabulation shows:

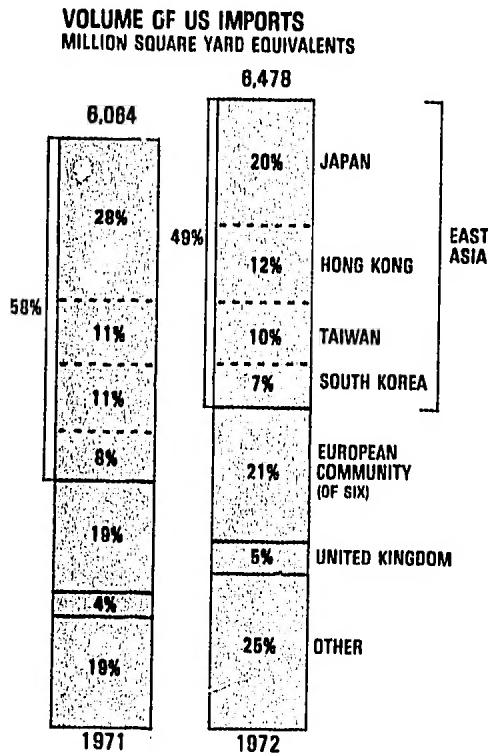
	Percent of Restraint Limits		
	Man-made Fiber Products	Wool Products	Cotton Products ¹
Japan	102	51	54
Hong Kong	110	64	107
Taiwan	100	154	83
South Korea	105	84	101

1. Figures for Japan and Taiwan are based on data for calendar year 1972; the figure for South Korea is estimated from nine months' data.

There also were numerous instances of above-quota shipments of particular textile products. In some cases, quotas were exceeded because US and East Asian authorities classified new product lines differently. Style changes, for example, frequently resulted in reclassification of a product under US customs regulations, while the exporting country continued the original classification. These problems have been partly resolved by refining the control procedures. In other instances, especially for Hong Kong and South Korea, textile producers simply shipped more than the quotas allowed. US customs officials embargoed some textiles upon delivery in the United States, and Washinton has pressed the governments for better compliance.

10. Despite the drop in import volume in 1972, the value of US textile imports from East Asia jumped by 15% - according to US statistics² - because of price increases and shifts to higher quality products. Average unit value rose by 32% for imports from Japan, owing to higher dollar prices charged following the yen's revaluation and to the upgrading of product lines. Average unit values for the other countries increased by 12% to 30%. These values rose appreciably for nearly every major category of each country's sales to the United States. All four countries were able to charge higher prices without seriously hurting their sales because competition among them was limited by the restraint programs. Because the value of imports from other countries also rose substantially, the US trade deficit in textiles widened by another \$300 million in 1972 to \$2.3 billion.

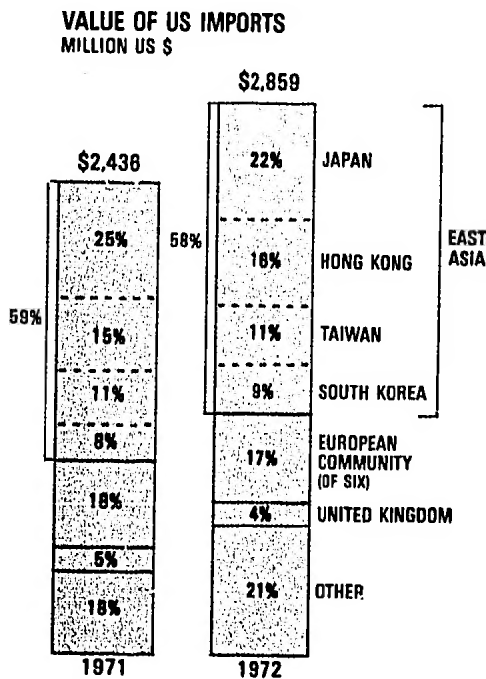
2. The 1% decline in value indicated by East Asian data apparently reflects the fact that large shipments arriving in the United States in early 1972 had left the exporting countries in late 1971.

CONFIDENTIAL**EAST ASIA'S SHARE OF US IMPORTS**

11. Higher unit prices held East Asia's share of dollar value of US textile imports at close to 60% in 1972, as shown in the accompanying chart. But the East Asian share of US import volume fell sharply to 49% as other suppliers took advantage of the restraint program and moved aggressively into the market for low-priced items. The EC, for example, took advantage of the restraints on Japan by markedly increasing exports of man-made fibers to the United States. Southeast Asian and Latin American countries meanwhile expanded their sales of inexpensive finished goods very rapidly.

The Shift to Other Markets

12. Confronted with tight restraints on sales to the United States, East Asia successfully turned to other markets last year. Indeed, the increases for Taiwan and South Korea in these markets were 66% and 55%, respectively. The total value of the region's sales increased by 14% - particularly notable gains being made in Western Europe, as the following tabulation shows:



	Million US \$		Percent Change
	1971	1972	
Total	4,888	5,596	14
United States	1,531	1,512	-1
European Community (of six)	334	506	51
United Kingdom	264	327	24
East Asia	842	996	18
Other	1,917	2,255	18

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This diversification effort reduced the US share of East Asian textile exports from 31% in 1971 to 27% in 1972.

13. All four countries considerably expanded sales to the six-member EC as well as to the United Kingdom. Largely ignored in the past because they restricted textile imports from East Asia and the US market was relatively open, West European countries became the object of serious sales efforts. The EC countries' controls proved to be too weak to prevent a sharp rise in East Asian textile exports from their traditionally low level. Taiwan and South Korea doubled their textile exports to the EC, and Hong Kong's sales increased by about 40%. Japan achieved a 15% gain despite strong competition from the other East Asian exporters. Despite the impressive percentage gains made, East Asian textile exports to the EC and the United Kingdom totaled only \$833 million, or 15% of global sales.

14. For Japan, growing markets in the Communist countries, especially the Soviet Union and China, also were important in making up for the setback in the United States. Sales to Communist countries rose by nearly 50%, to \$212 million. East Asia itself remained the largest overseas market for Japanese exports of man-made yarns, fibers, and fabrics, which typically are processed into finished goods for export. Sales to South Korea and Taiwan, however, increased little in 1972 because these countries are moving toward self-sufficiency in synthetic fiber production.

15. Japan itself continued to be a key growth market for South Korea and Taiwan, whose already strong competitive position in that market was strengthened by the yen's revaluation. Each country's sales to Japan rose by roughly one-half. South Korea did particularly well, selling raw silk and products such as pockets and collars that Japan uses to make finished clothing, while Taiwan greatly expanded exports of fabrics and finished clothing items.

Domestic Impact

16. The new restraint program, rising export prices, and growing competition in the home market from foreign suppliers combined in 1972 to cause a slight decline in Japanese textile production -- the first drop since 1958. To reduce opposition to the restraint agreement and ease the impact of last year's setback, Tokyo has made available to the industry some \$750 million in long-term loans at low interest rates. These funds have helped to accelerate the modernization of textile plants and equipment. The synthetic fiber industry has already recovered from the initial adverse effect of restraints and weak domestic demand and is planning to increase investment spending by roughly 45% during the year ending in March 1974.

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17. In response to the restraints, Japanese firms also have stepped up their investment in overseas textile industries. These facilities are usually supplied with Japanese intermediate products -- yarn, fibers, and fabrics -- which are processed into finished goods for sale in both the host country and third country markets, including the United States. During 1972, investments increased especially sharply in Latin America, reflecting joint ventures in Costa Rica, Guatemala, Peru, and Brazil. Investment in Southeast Asia, especially Indonesia and Thailand, also increased, and the Japanese have begun investing in the US textile industry. Several joint ventures have already been set up in the Carolinas. Moreover, major Japanese textile manufacturers such as Teijin Ltd., Toray, and Kanebo have been considering plant sites in the United States.

18. Other East Asian producers have not been seriously hurt yet by restraints. Output continued to rise fairly rapidly in 1972; indeed, South Korean textile production increased by 32%. All the industries also benefited from higher prices. Employment has remained at high levels, and, although some investments have been delayed or canceled, many modernization and expansion programs apparently have been moving ahead. Taiwan and South Korea, for example, still expect to reach self-sufficiency in synthetic fiber production by the mid-1970s, and Hong Kong's textile industry continues to attract foreign investors, mainly Japanese.

Prospects

19. The restraint programs should hold annual increases in East Asia's sales volume to the US market to between 5% and 10% during the next few years even if cotton textile exports show continued strength. Growth rates are likely to be moderate because some itemized quotas will remain unfilled as US tastes change and because Japan, at least, will have difficulty selling some products owing to its weakened competitive position since the revaluation. The value of East Asian sales to the United States will continue to rise more rapidly than sales volume as product upgrading continues, although not by the margin achieved in 1972.

20. Overall, East Asian textile exports are unlikely to expand nearly as fast in the 1970s as they have in the past decade because the countries face growing trade restrictions and (in the case of Japan) more effective competition. Japan will remain an important world supplier, but the latest currency revaluation will impair its ability to sell abroad. The other countries will encounter growing protectionist sentiment as they try to boost their exports. The EC will almost certainly tighten its controls on textile imports from East Asia if they continue to mount as in 1972. Other West European countries, as well as Australia and Canada, will be inclined to tighten controls if they become the focus of East Asia's marketing effort.

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21. The only alternative to proliferating restraints on textile trade seems to be a broad international agreement aimed at an orderly world market, as the United States has proposed. Obtaining an international agreement will be difficult because the East Asians probably will press hard for a fairly rapid growth in exports to markets such as the EC. East Asian exports to the EC and UK markets, for example, would have to grow by an estimated 20% annually just to equal the increments in volume now permitted in the US market. Because the EC is likely to reject any liberal control program, the East Asians can be expected to press Washington for somewhat easier access to the US market in return for acquiescing to a new international agreement.

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APPENDIX

Statistical Tables

Table A-1

US Textile Imports From East Asia¹

	Japan			Hong Kong			Taiwan			South Korea			Total East Asia		
	1971	1972		1971	1972		1971	1972		1971	1972		1971	1972	
Volume	Million Square Yard Equivalents		Percent Change	Million Square Yard Equivalents		Percent Change	Million Square Yard Equivalents		Percent Change	Million Square Yard Equivalents		Percent Change	Million Square Yard Equivalents		Percent Change
Total	1,711	1,306	-24	689	768	11	669	619	-7	457	479	5	3,526	3,172	-10
Man-made products	1,401	980	-30	247	254	3	592	518	-12	408	416	2	2,648	2,168	-18
Fibers	607	255	-58	4	5	25	13	3	-77	43	24	-44	667	287	-57
Fabrics	486	420	-14	4	13	225	63	61	-3	19	22	16	572	516	-10
Finished goods	308	305	-1	240	236	-2	516	454	-12	346	371	7	1,410	1,366	-3
Wool products	25	11	-56	25	26	4	3	8	167	7	12	71	60	57	-5
Cotton products	285	314	10	416	488	17	74	93	26	41	51	24	816	946	16
Value	Million US \$			Million US \$			Million US \$			Million US \$			Million US \$		
Total	617	623	1	364	454	25	262	315	20	190	257	35	1,433	1,649	15
Man-made products	439	411	-6	149	177	19	236	276	17	166	223	34	990	1,087	10
Fibers	79	29	-63	1	2	100	4	1	-75	5	3	-40	89	35	-61
Fabrics	180	178	-1	1	4	300	4	4	0	7	10	43	192	196	2
Finished goods	180	204	13	147	171	16	228	271	19	154	210	36	709	856	21
Wool products	40	20	-50	66	71	8	5	7	40	12	15	25	123	113	-8
Cotton products	139	193	39	149	206	38	21	31	48	12	19	58	321	449	40

1. Because of rounding, components may not add to the totals shown.

CONFIDENTIAL**Table A-2****East Asia: Direction of Textile Exports¹**

	Million US \$		Percent Change
	1971	1972	
Japan			
Total	2,653	2,799	6
United States	637	558	-12
Hong Kong	279	280	Negl.
South Korea	150	154	3
Taiwan	126	133	6
EC (of six)	84	97	15
United Kingdom	29	36	24
Other	1,348	1,541	14
Taiwan			
Total	624	860	38
United States	274	280	2
EC (of six)	57	117	105
Japan	42	66	57
United Kingdom	14	34	143
Other	237	363	53
Hong Kong			
Total	1,132	1,265	12
United States	407	414	2
United Kingdom	217	242	12
West Germany	136	196	44
Netherlands	26	31	19
Japan	22	16	-27
Other	324	366	13
South Korea			
Total	479	672	40
United States	213	260	22
Japan	122	182	49
EC (of six)	31	65	110
United Kingdom	4	15	275
Other	109	150	38

1. Data are from East Asian trade statistics.

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